

Knowledge Management in Multinational Companies: The Repatriates' Role in the Competitive Advantage in Subsidiaries

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Abstract: This paper addresses the topic of knowledge management in multinational companies (MNCs). Its purpose is to examine the role of expatriates in knowledge acquisition and transfer within MNCs. Specifically it focuses on knowledge acquisition and transfer from one MNC head office located in Germany to two Portuguese subsidiaries as a basis for competitive advantage in their Portuguese subsidiaries. A qualitative research methodology is used, specifically through an exploratory case study approach, which examines how international assignments are important for the role of expatriates in knowledge acquisition and transfer between foreign head offices and their Portuguese subsidiaries. The data were collected through semi-structured interviews to 10 Portuguese repatriates from two Portuguese subsidiaries of one foreign MNC. The findings suggest that the reasons that lead to expatriating employees from Portuguese subsidiaries to foreign head offices are connected to (1) knowledge management strategies to development the subsidiary's performance; (2) new skills and knowledge acquisition by future team leaders and business/product managers in Portuguese subsidiaries; (3) procuring knowledge, from agents in head office, to be disseminated amongst co-workers in Portuguese subsidiaries; (4) acquiring global management skills, impossible to acquire locally and; (5) developing global projects within MNC. Also our results show that knowledge acquisition and transfer from foreign head office, through subsidiaries' expatriates, contributes directly to the Portuguese subsidiaries' innovation, improved performance, competitive advantage and growth in the economic sectors in which they operate. Moreover, evidence reveals that expatriation is seen as a strategy to fulfil some of the main organisational objectives through their expatriates (*e.g.*, create new products and business markets, develop and incorporate new organisational techniques and processes, integrate global teams within multinational corporation with a responsibility on the definition of global objectives). The results obtained suggest that expatriates have a central role in acquiring and transferring strategic knowledge from MNC head office to their subsidiaries located in Portugal. Based on the findings, the paper discusses in detail the main theoretical and managerial implications. Suggestions for further research are also presented. The study's main limitation is the small size of the sample, but its findings and methodology are quite original and significant.

Keywords: expatriates; international assignments; multinational companies; knowledge acquisition; knowledge transfer

1. Introduction

In recent years, there has been a growing interest in contextualizing research in knowledge management (KM). In fact, it is said that all the research on KM is contextual. Despite the abundant literature on knowledge management, few empirical studies have explored knowledge management in connection with the international assignees of multinational companies (MNCs) (Chang et al., 2012; Danis & Shipilov, 2012; Fang et al., 2010). Therefore in this paper we link two separated fields of knowledge: KM and International Human Resources Management (IHRM).

The link is important because we live in a growing process of globalization. In this year's survey report, companies indicated that 44% of revenues of multinationals were generated outside their headquarters' country (Brookfield GRS 2013). Basically the acquisition and transfer of knowledge within MNCs is only possible by transfer and interaction of expatriates across MNCs (Riaz et al., 2014). That is, expatriates can be hypothesized to provide expertise in subsidiaries where the goals of the organisation are well articulated between head office-subsidiary relationships. On one hand, the expatriate's role is to disseminate knowledge amongst the different multinational subsidiaries (Martins, 2013). But on the other hand, some of the benefits of the expatriates' influence on knowledge sharing/transfer are the contributions that they may give to the subsidiaries' performance improvement through their individual and corporative knowledge (Chang et al., 2012; Fang et al., 2010). This perspective provides the basis for investigating the role of expatriates in the process of knowledge acquisition and transfer between the MNCs' head office and subsidiaries. In parallel to this topic, prior studies (*e.g.* Belderbos & Heijltjes, 2005; Goerzen & Beamish, 2007; Konopaske et al., 2002, Riaz et al., 2014) within the expatriate management literature have suggested that it was worth investigating the expatriates' impact on the subsidiaries competitiveness.

Also, this phenomenon has a special relevance in the Portuguese context, since, to our knowledge (a) there are no empirical studies concerning this issue that involves expatriates from Portuguese companies; (b) the number of expatriates from Portuguese subsidiaries into foreign MNCs' head offices has grown; (c) little is known about expatriates' contributions to their home company after international assignment. Specifically therefore, on this paper, we study the role of expatriates in facilitating the acquiring and transferring of knowledge from the head office of two MNC's to its Portuguese subsidiary (research question 1) and, consequently, we investigate the expatriate's role in the growth of the subsidiary research question 2).

To achieve these goals, the paper has the following structure: In section 2, we present the concepts of KM, MNCs, and expatriates, (2.1) and expose some theories about the use of KM in MNCs with relation with expatriates (2.2). In section 3, we present the methodology used in the empirical research. Afterwards, in section 4, we present the main results regarding the two mentioned research questions (4.1, and 4.2) and we discuss them (4.3). Finally, in section 5, we will present the paper's conclusions, limitations and implications.

2. Literature review

2.1 Concepts

In this paper we define knowledge as understood information (Maurer, 1998). Also knowledge exists in the context of a knowledge cycle (Nonaka and Takeuchi, 1995) according to which it is transformed between tacit and explicit in a knowledge spiral. Finally, MNCs are companies which are based in several countries; they usually have a mother country and some subsidiaries; they are important for both the mother country and the host countries in different levels; they may induce social change and policies, and may also benefit directly from policies; they may also create an elite of the labour force in the host country. Nowadays MNCs are much related to the process of delocalization. MNCs also generated the scientific branch of IHRM based in the study of the condition of the expatriates.

2.2 Theories

2.2.1 Knowledge and MNCs

According to the central argument developed by recent researchers (e.g. Chang et al, 2012; Fang et al., 2010), an important competitive advantage of MNCs lies in their ability to create and transfer knowledge from head offices to subsidiaries abroad and vice versa. MNCs often use expatriates to acquire and transfer knowledge from head office to their subsidiaries abroad, and such acquired and transferred knowledge is believed to be vital to subsidiary performance. Hereby, the impact of knowledge transfer from head office to subsidiaries abroad has been the focus of research on MNCs knowledge management (Fang et al., 2010; 2008; van Wijk et al., 2008). However, even if acquiring and transferring knowledge between the head office and the subsidiary has been recognized as important in knowledge management research, this topic has not yet been integrated into expatriation research (Chang et al., 2012). The utility of expatriates in subsidiary abroad located in emerging markets is inevitable because of the strategic roles these expatriates play on these subsidiaries and the severe of qualified local managers executives (Harzing, 2001; Riaz et al., 2014). In fact, knowledge acquisition and transfer have rarely been examined directly as the link between expatriation and subsidiary performance (Fang et al., 2010; Harzing, 2001; Martins, 2013; Minbaeva & Michailova, 2004). On one hand, research on knowledge acquisition has been centred almost exclusively on knowledge transfer in MNCs (Chang et al., 2012; Danis & Shipilov, 2012; Fang et al., 2010). On the other hand, research of knowledge acquisition and transfer has received much less attention by expatriate literature (Crowne, 2009). Previous research linked to the knowledge transfer perspective on expatriation (e.g. Bonache & Brewster, 2001; Chang et al., 2012; Martins, 2013; Riaz et al. 2014) suggest that expatriates are central to the process of knowledge integration because they are the ones that help to acquire and to share the knowledge from head office to subsidiary or vice-versa.

2.2.2 The role of expatriates in knowledge acquisition and transfer

The expatriate's role is to disseminate knowledge between the head office and the subsidiaries and vice-versa (Martins, 2013). These expatriates are the ones that hold top management positions or key positions in functional departments of foreign subsidiaries (Fang et al., 2010; Harzing, 2001; Martins, 2013). Usually, they are selected on the basis of technical and management knowledge, expertise and skills in their home company.

These expatriates go to head office during a long period of time to acquire new knowledge and after they came back to their subsidiary abroad where they should disseminate the knowledge they learnt in the head office (Chang et al., 2012).

However, the few related studies that examined the influence of expatriates in knowledge transfer have not as yet found any significant relationships between expatriation and knowledge transfer (e.g. Bjorkman & Barner-Rasmussen, 2004; Fang et al., 2010; Gupta & Govindarajan, 2000). Furthermore, earlier scholars (e.g. Belderbos & Heijltjes, 2005; Riaz et al., 2014) have called attention to importance of the use of expatriates for managing head office-subsidary relationships used by MNCs.

But, scholars have found that tacit and complex firm-specific knowledge, such as technological and marketing knowledge, once successfully transferred, enables MNCs and their subsidiaries to achieve superior performance (Fang et al., 2010). Thus, the expatriation literature has considered the dissemination of unique functional knowledge an important reason for filling positions in foreign subsidiaries with expatriates (Fang et al., 2010; Harzing, 2001; Martins, 2013; Minbaeva & Michailova, 2004). In this view, some studies have focused on examining companies' effectiveness in extracting knowledge from expatriates after one expatriation on head office and consequently to understand their role on subsidiary competitiveness (e.g. Gong, 2003; Gupta and Govindarajan, 2000; Hébert et al., 2005; Minbaeva and Michailova, 2004). The literature shows us, thus, why expatriates are key elements in the knowledge acquire and transfer process, namely, enhance the transfer of important head office organisational knowledge to its subsidiaries abroad (Fang et al., 2010). Through this role, expatriates may to improve the scope and richness of knowledge transfer through both formal and informal communication channels (Fang et al., 2010), especially to transfer corporate coordination routines and to acquire more corporate knowledge within MNC.

Anyway it is known that MNCs need to develop strategies for implementing effective local competence development initiatives (Li & Scullion, 2010). These initiatives should allow expatriates to disseminate the knowledge they acquired. International assignments allow employees to acquire valuable knowledge and companies often use these assignments because international experience is considered a critical component to company strategy and because of the richness of these experiences, more opportunity for knowledge sharing exists (Bonache & Brewster, 2001; Crowne, 2009; Martins, 2013).

The influence of expatriates also reflects benefits on acquisition and sharing knowledge, namely on diffusion of individual tacit knowledge. Based on the assumption, previous literature (e.g. Li & Scullion, 2010; Grant, 1996) considers that all tacit knowledge can be eventually converted into explicit knowledge. Consequently, the utilization of expatriates with previous experience on international assignments contributes to transferring tacit and explicit knowledge which are lacking in foreign subsidiaries (Crowne, 2009; Bonache & Brewster, 2001). Furthermore, as Crowne (2009) shows, the role of expatriates is more important on knowledge diffusion especially when parent-firm knowledge needs to be transferred to foreign subsidiaries because of the differences in host-country markets. In addition, the expatriation literature (e.g. Harzing, 2001; Minbaeva and Michailova, 2004) has also considered the dissemination of unique functional knowledge an important reason for filling positions in foreign subsidiaries with expatriates.

3. Methodology

3.1 Case selection

A qualitative research methodology is used, specifically through an exploratory case study approach, which examines with detail how international assignments are important for the role of expatriates in knowledge acquisition and transfer within a MNC, between the head office located in Germany and two Portuguese subsidiaries.

We opted by a convenience sample. To do so, two criteria were adopted: to choose the cases for analysis. Firstly, the MNC studied should have subsidiaries located in Portugal. Secondly, these subsidiaries should have experience on expatriation (*i.e.* should have repatriates who returned from the MNC's head office located on a foreign country). As Creswell (1998) suggests, we ended with a theoretical and intentional sample. In practice both the Portuguese subsidiaries of this MNC were private companies and based in the North of Portugal. They operated in the manufacturing sector and had expatriation experience for more than ten years. Furthermore

at the time of the study, subsidiary A has less than one thousand workers and subsidiary B has more than one thousand workers of labour force. Table 1 summarizes the main characteristics of the two Portuguese subsidiaries included in the study

Table 1: Characteristics of the subsidiaries studied

Subsidiary	Business Sector	Number of workers	Number of expatriates	Duration of expatriation (average in years)
A	Thermo technology	878	23	2 years
B	Car multimedia	1894	21	2 years

Ten repatriates were interviewed (all males; aged 38 in average). All repatriates possessed a university degree. As for their marital status, 2 were single, 7 were married and 1 was divorced. All repatriates had either a position on the second hierarchical level (head of department) or technical position (engineering function) and all repatriates are within the company for 6 years at least.

3.2 Data collection and coding

Semi-structured interviews were made to repatriates (from two Portuguese subsidiaries of one foreign MNC) in January 2014. A total of ten interviews were made (five interviews on each subsidiary). All interviewees were native Portuguese and all interviews were conducted in Portuguese, by the same researcher. Particular attention was paid to the data collection about (1) the role of expatriates in knowledge acquisition and transfer within MNCs, especially, on knowledge acquisition and transfer from a MNC head office located in Germany to their Portuguese subsidiaries and (2) how this acquired and transferred knowledge promotes a basis for competitive advantage in their Portuguese subsidiaries. The average duration of each interview was 40 minutes. The interviews were tape-recorded, data were transcribed and categorized based on 'commonalities and differences' across emerging themes and then frequencies for each category were determined (Ghauri & Gronhaug 2002). On both subsidiaries, the lead author had some additional conversations with HR managers which in order to complete some information related to issues of this research. To ensure anonymity identification codes were assigned to each company: company A and company B. In each company, repatriates called interviewed 1; interviewed 2; interviewed 3; interviewed 4 and interviewed 5. Confidentiality was granted to interviewees and to the companies, as well.

4. Results and discussion

In this section first we present the results which answer to each one of our research questions, namely, the role of the repatriates on transferring knowledge from the subsidiary to the head office (4.1) and their impact of the expatriates on the competitive advantage of the head office (4.2). Finally we discuss the results (4.3).

4.1 Repatriates' role from subsidiary to head office

To answer our first research question "Which is the role of expatriates on knowledge acquisition and transfer from a MNC head office located abroad to their Portuguese subsidiaries?, repatriates of our study identified two main roles during their international assignment on head office: knowledge acquisition and knowledge transference.

4.1.1 Knowledge acquisition

In both Portuguese subsidiaries expatriates go into mission to the head office, in order to acquire knowledge which is not available locally. The acquired knowledge is of four types: technical (a), managerial (b), market (c), and networking (d) related. The following quotes are illustrative:

Technical Knowledge

Technical knowledge involves information, processes and tools used in the development of a product or service. A great deal of this knowledge, in order to be applied to the subsidiaries service, needs to be acquired in the multinational central departments, as some repatriates explain:

I used to work in the purchase area... and I was proposed to go to Germany for two years... I went there to acquire knowledge on purchases (interviewed 4, company B).

The MNC controlling function is something that exists only on MNC. And, obviously, when connected to the Central, one acquires much more competences than when being here... And in pure controlling, there is nothing better than being there [in Head Office] to learn. (interviewed 1, company A).

Today, the factory takes higher profit from me that just couldn't take it if I hadn't gone to the Head Office. My local bosses did not have the necessary competences to train me and pass me the know-how... and, for that, I needed to acquire more knowledge directly from the Head Office (interviewed 4, company A).

Managerial Knowledge

Managerial knowledge refers to how the activities of managers in the company are organized and coordinated. The acquisition of this kind of knowledge is implicit in programmes of international development that exist for those collaborators willing to assume leadership functions in the subsidiaries, as explained by one of the repatriates:

I went into the so called "International Development Program", which is a programme that aims at recruiting people from the foreign subsidiary... meaning, a programme aiming at recruiting people that are not German to embrace a leadership place in the original country, at a medium, long term... this programme aimed at the acquisition of corporative competences (interviewed 1, company A).

Since I arrived I took new functions... [result of knowledge acquisition during my international assignment] I report directly to the Board, I'm already in the pure management area and before I was simply a technician (interviewed 1, company B).

Market Knowledge

Market knowledge is viewed as critical for success, especially for nascent companies. This type of knowledge provides information about the supply of and demand for specific products or services, and the environmental context in which exchange takes place (e.g., competitive conditions). About this type of knowledge, two repatriates say that:

After my return, I was proposed to become the product responsible and to manage the necessary changes to the product, in order to accomplish a good market position. [result of knowledge acquisition during my international assignment] I became the CEO of the product... I have to decide on how to raise the market share and how to increase the business volume of the subsidiary A (interviewed 5, company A).

My international assignment was a great opportunity for me to contribute more for the business of subsidiary B. My international assignment was the fundamental start-up for the business development of the area now existing in the subsidiary B. Without the decision of going to the head office to get the knowledge, today, most probably, we wouldn't have this new organization of the subsidiary B (interviewed 1, company B).

Knowledge Network

The Knowledge network relates to all the important people which work in the head office and that are able to influence the evolution of the MNC. The ability to develop a good knowledge network becomes critical, especially if it is not done locally, as explain these repatriates:

All the networking is placed in the Central and it is much easier for me to contact them now... And, obviously, it helps a lot... (interviewed 1, company A).

I was a plus for the subsidiary B, because of the networking I developed in the head office... we had to contact people in the head office and I knew them and took the role of facilitator between the subsidiary B and the head office (interviewed 2, company B).

What I earned was... [I acquired a networking knowledge] a great network connected to the purchasing area, something I would never earn if staying here, because I was far away from the development located at Germany (interviewed 4, company B).

4.1.2 Knowledge transference

This multinational also identifies opportunities to transfer to the head office the individual knowledge that can be located in workers connected to the foreign subsidiaries. For that transfer to occur, the subsidiaries' expatriates are invited to accomplish an international assignment of long term in the head office, as our data suggest:

- Company A was seen as a benchmarking inside the group and, in that sense, there was compatibility with the profile they were looking for and I went (interviewed 5, company B, but before going the interviewed belonged to company A).
- The German head office had a deficit on electronic engineers. They need staff to develop the hardware... They needed a development engineer there and they hadn't one and then they needed to make the transfer of that knowledge here [to the Portuguese subsidiary] in order to start with the development project... (interviewed 1, company B).

4.2 Repatriates' role for competitive advantage in subsidiaries

Our second research question was: How does the acquired and transferred knowledge promotes a basis for competitive advantage in their Portuguese subsidiaries? The results show that expatriates help to improve the Portuguese subsidiaries' performance in three ways; in the introduction of new products (a) at the process of innovation (b) and in the reduction of costs (c), as suggested by the following testimonies:

Introduction of new products

The majority of expatriates that performed some international assignments in the head office went with the goal of acquiring knowledge that enabled them to afterwards apply it in the subsidiary, on what concerns the introduction of new products or services, as suggested by the following statement:

To bring some knowledge here, in order to be prepared to be able to produce some of the products here... My role was to bring some know-how in this systems area... to the factory here and start producing... yes, it started producing them (interviewed 2, company B).

Sending expatriates to the conception of projects in the MNC head office seems to be strategic for the Portuguese subsidiaries' local administrations. Willingness exists to, first sending expatriates abroad, and afterwards, in a second phase, to profit from using the acquired knowledge to implement the projects that are centrally developed. These arguments are mentioned in the following statements:

I was a key element in the production [of product X] here at the subsidiary A, which increased the subsidiary A's volume of sales... I was leading the investigation of a product that is innovator and strategic here at the subsidiary A... I was the key to the solution in terms of production and even in terms of the product's distribution... I contributed to the implemented solution's value creation. I feel that I have an important role in the contribution for the subsidiary A growth (interviewed 4, company A).

With the acquired knowledge, obtained in the head office, I brought a new business to the subsidiary B... I brought the knowledge that allowed introducing a more complex niche of business and new components that allowed the administration to place those products here, at the subsidiary B... (interviewed 2, company B).

Existing work processes of innovation

Even if the Portuguese subsidiaries had their own working processes, the strategy of being able to improve them by introducing innovation acquired in the head office seems to be determinant for the raise of those subsidiaries' competitive advantage, as stated by both subsidiaries interviewees:

I feel that the factory recognizes that the local group improved a lot after my return from the head office... the work I've done in Germany allowed me to perform process engineering here and had a positive impact in a very critical area that started to enlarge the subsidiary A sales (interviewed 3, company A).

I went there to acquire knowledge and I know that today I am transmitting and allowing to enlarge those competences for the subsidiary A's processes improvement (interviewed 4, company A).

I'm aware that the presence close to the corporate centre allowed me to see the area as they see it and that they prepared me to assume the organizational challenges that I have here... I went there to acquire a set of tools that I brought with me and now I place them here. I feel that I have a much larger tool set [a more innovative one] that I can use in an easier way [in the existing processes] (interviewed 5, company B).

Costs reduction

Aiming at maintaining the quality of the services, the local strategy was to use the expatriates to acquire new knowledge that was introduced in the development of the products, in a way as to reduce the efficiency costs.

My international assignment allowed the head country to look at this section as one that performs a quality service inside the group and a reliable one. They know that today they can place a project here and it will go as right and as stable as if it was performed there, at Germany. My experience was done in the sense of reducing the MNCs' costs. It's cheaper to have someone at the subsidiary B that knows how to do than to bring some German worker here to do it. For that reason, I know that the competences I acquired there, at the head office, helped to reduce the head office's costs, because we are one of the best in terms of low-cost location, which is of interest to the group and to the subsidiary B (interviewed 4, company B).

4.3 Discussion

Both Portuguese subsidiaries seem to be aware of the need to use expatriates as mediators in the acquisition of technical knowledge, of management, of market and of the necessary networking to obtain competitiveness advantage inside the multinational. Even if recent literature (e.g. Chang et al., 2012; Fang et al., 2010; Martins, 2013) continues to value the head office expatriates' mission in subsidiaries, our results show that this multinational has as frequent practice the sending of expatriates from the subsidiaries to the head office, in order for them to acquire the necessary knowledge for the improvement of their subsidiaries' performance. The acquired knowledge, shared through the expatriates' mission from the subsidiary to the head office (Chang et al., 2012), seems to show the strategic importance of both Portuguese subsidiaries inside the multinational. By efficiently using the acquired knowledge, these subsidiaries have, on one hand, guaranteed their development and strategic positioning inside the multinational and, on the other hand, contributed for the MNC business volume raise.

Our study confirms the need to use expatriates as agents for knowledge acquisition and transmission inside a multinational, as a challenge that tends to stay (Li & Scullion, 2010; Martins, 2013). Our results reveal that there is a large amount of individual tacit knowledge disseminated inside the subsidiaries and that MNC seems to be interested in using it, inviting the expatriates to perform international assignments to the head office, for them to share it, develop it and use it in global organizational projects that can, in the future, be performed in their home subsidiaries.

The lack of local knowledge for the development of the Portuguese subsidiaries' competitive advantage limits their decision making and weakens the foreign subsidiaries' performance (Fang et al, 2010; Li & Scullion, 2010; Riaz et al., 2014). Nevertheless, the analysis of our results shows that sending expatriates to the head office seems to be a management practice adequate for their Portuguese subsidiaries' local knowledge development. For this reason, our results show that expatriates play a determinant role in the growth of these MNC Portuguese subsidiaries. Nevertheless, as showed by Riaz et al. (2014) study, our research demonstrates that the Portuguese subsidiaries do not have yet a consolidated business strategy, able to guarantee the stability of its performance at the production, sales and business level.

Our results also bring important implications to the management area. Namely, the results seem to be crucial for multinational managers to understand how they can promote effective initiatives of local knowledge development, at a technical, management, market and networking level. In fact, these expatriates' strategic importance for the competitive advantage of their home subsidiaries improvement suggests that management may pay a special attention to the sending abroad of future expatriating collaborators.

Finally, and similarly to the recently founded results of other researchers (e.g. Chang et al., 2012; Riaz et al., 2014), our results suggest that there is a need to pay attention to the expatriate performance during his international assignment, since it can influence the subsidiary path at a long-term level. For that reason, the decision of sending expatriates should be considered in a long-term management vision (Crowne, 2009; Li & Scullion, 2010). We believe, as Riaz et al. (2014) suggest, that building a long-term orientation is thus crucial to accurately assess organisational performance and evaluate the role of key employees in organisations.

5. Conclusions

In this paper we presented a study on two Portuguese subsidiaries of a Germany multinational company. Theoretically, we believe like as Crowne (2009), that expatriates play a positive role in transferring parent-level, location independent knowledge in terms of enhancing a subsidiary's competitive advantage. Furthermore, the head office can benefit of this knowledge transferring through of return of expatriates to home subsidiary.

The results obtained suggest that expatriates have a central role in acquiring and transferring strategic knowledge from the MNC head office to their subsidiaries located in Portugal. First, our do suggest a positive relationship between successful knowledge acquisition and competitive advantage in subsidiaries, although these findings must be interpreted cautiously given the exploratory nature of this work. Furthermore our research also suggests that knowledge acquisition and transferring, once successfully transferred, is beneficial to subsidiaries.

Finally, our study has some limitations that should be considered when interpreting the findings and should be considered when pursuing further research. First of all, we have analysed specifically two Portuguese subsidiaries in the manufacturing sector of one MNC corporation. It may not be possible to generalize these results to other companies, especially in other sectors or countries with different characteristics.

It is important that future research continues this papers' analysis, with a larger sample of both companies and the expatriates.

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